

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant : Steven M. Bloom, Michael S. Spector and John L. Jacobs      Art Unit : 3693  
Serial No. : 10/001,900      Examiner : Sara M. Chandler  
Filed : November 14, 2001      Conf. No. : 8995  
Title : BALANCING ARBITRAGABLE TRACKING SECURITIES

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APPEAL BRIEF ON BEHALF OF STEVEN M. BLOOM ET AL.

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**(1) Real Party in Interest**

The real party in interest in the above application is The NASDAQ OMX Group, Inc.

**(2) Related Appeals and Interferences**

Appellant is not aware of any appeals or interferences related to the above-identified patent application.

Appellant is concurrently with this appeal filing an appeal in application 10/077,182 filed February 15, 2002. That appeal has not yet been docketed to the Board of Appeals.

**(3) Status of Claims**

This is an appeal from the decision of the Primary Examiner in a final office action dated July 22, 2008, finally rejecting claims 1-2, 4-8, 10-13, 15-19, and 21-26, all of the claims in the application.

Appellant filed a Notice of Appeal on **November 21, 2008**. Claims 1-2, 4-8, 10-13, 15-19, and 21-26 are the subject of this Appeal.

**(4) Status of Amendments**

All amendments have been entered.

**(5) Summary of Claimed Subject Matter**

**Claim 1**

Appellant's claim 1 is directed to a method that is executed on a computer to produce shares of a first fund that are traded on a first marketplace.<sup>1</sup>

Inventive features of Appellant's claim 1 include recording by the computer, delivery by a market participant to an agent for the first fund, of a creation unit basket of securities having a creation unit basis that is substantially the same as a creation unit basis for a second fund that is traded on a second marketplace in a second, different country than that of the first fund.

*"Referring to FIG. 1, a first index-tracking fund 12 issues tracking fund shares 14 that are*

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<sup>1</sup> See FIGS. 1 and 4, and Appellant's Specification page 4, lines 11-13, and page 14, line 12 to page 15, line 12.

*traded on a marketplace 16 in a first country 18, .... The first tracking fund 12 has a different country of registration 18 than that of a second fund 22. The second fund 22 also issues tracking fund shares 24 traded on a second marketplace 26. The second marketplace 26 is based in a second country 28.”<sup>2</sup> and “the first tracking fund 12 uses a creation unit 15 basis that is substantially the same as, and preferably essentially identical to, the creation unit 25 basis for the second tracking fund 22.”<sup>3</sup> See also FIGS. 1 and 4.*

Inventive features of Appellant's claim 1 also include recording by the computer, delivery of a prescribed number of shares in the first fund to the market participant, in exchange for the creation unit basket of securities and a second number of shares in the second fund to account for cash that is owed by the agent to the participant. *“...the agent calculates 64 the amount of cash needed to be exchanged between agent and the participant to have first fund equate to second fund at the NAV at the close of trading in the second country. If the cash is a positive amount the agent owes cash to the participant. As shown in FIG. 3, if the calculation 64 indicates that the agent that issues the shares must also issue cash to the market participant 66, the agent at its option can instead issue 68a shares in the second country fund along with the shares in the first country fund.”<sup>4</sup>* See also FIGS. 3 and 4.

#### Claim 7

Appellant's claim 7 is directed to a computer program product residing on a computer readable medium, for administering a first financial product that has shares traded in a first marketplace the first financial product based on a creation unit basket of securities having a basis that is substantially the same basis as a creation unit basis for a second financial product that has shares traded on a second marketplace in a different country.<sup>5</sup>

Inventive features of Appellant's claim 7 include instructions to determine a second number of shares in the second financial product to account for cash that is owed by an agent that issues the shares in the first financial product to a participant that receives the shares in the first

<sup>2</sup> Appellant's Specification page 4, lines 11-13 and lines 17-21.

<sup>3</sup> *Id.* page 5, lines 22-25.

<sup>4</sup> *Id.* page 13, lines 4-13.

<sup>5</sup> See FIGS. 1 and 4, and Appellant's Specification page 1, line 24 to page 2, line 8 and page 14, line 12 to page 15, line 12.

financial product, the agent delivering a second number of shares in the second financial product in lieu of the cash. *"...the agent calculates 64 the amount of cash needed to be exchanged between agent and the participant to have first fund equate to second fund at the NAV at the close of trading in the second country. If the cash is a positive amount the agent owes cash to the participant. As shown in FIG. 3, if the calculation 64 indicates that the agent that issues the shares must also issue cash to the market participant 66, the agent at its option can instead issue 68a shares in the second country fund along with the shares in the first country fund."*<sup>6</sup> See also FIGS. 3 and 4.

#### Claim 12

Appellant's claim 12 is directed to a system including a computer and a storage medium storing a computer program product for administrating a first financial product that has shares traded in a first marketplace, the first financial product based on a creation unit basket of securities having a basis that is substantially the same basis as the creation unit basis for a second financial product that has shares traded on a second marketplace in a different country.<sup>7</sup>

Inventive features of Appellant's claim 12 include instructions included in the computer program product to record the number of shares issued in the first financial product, determine a second number of shares in the second financial product to account for cash that is owed by an agent that issues the shares in the first financial product to a participant that receives the shares, the agent delivering the second, number of shares in the second financial product in lieu of the cash, and record the second number of shares delivered in the second financial product. *"The computer program product comprises instructions for causing a processor to determine a second, number of shares in the second fund to account for cash that is owed by the agent to the participant to allow the agent to deliver second, number of shares in the second fund in lieu of the cash and a prescribed number of shares in the first fund to the market participant in exchange for the creation unit basket."*<sup>8</sup> and *"...the agent calculates 64 the amount of cash needed to be exchanged between agent and the participant to have first fund equate to second*

<sup>6</sup> Appellant's Specification page 13, lines 4-13.

<sup>7</sup> See FIGS. 1 and 4, and Appellant's Specification page 2, lines 9-16 and page 14, line 12 to page 15, line 12.

<sup>8</sup> *Id.* page 2, lines 16-22.

*fund at the NAV at the close of trading in the second country. If the cash is a positive amount the agent owes cash to the participant. As shown in FIG. 3, if the calculation 64 indicates that the agent that issues the shares must also issue cash to the market participant 66, the agent at its option can instead issue 68a shares in the second country fund along with the shares in the first country fund.”*<sup>9</sup> See also FIGS. 3 and 4.

### Claim 18

Appellant's claim 18 is directed to a computer program product residing on a computer readable medium, for administrating a first exchange-traded fund.<sup>10</sup>

Inventive features of Appellant's claim 18 include instructions included in the computer program product to record creation of the first exchange-traded fund, the first exchange-traded fund having a prescribed number of shares for trading in a first country, the first exchange-traded fund produced by delivery to an agent, in exchange for the prescribed number of shares of a creation unit basket of securities having a basis that is substantially the same basis as a creation unit basis for a second exchange-traded fund that has shares traded on a second marketplace in a second, different country. “Referring to FIG. 1, a first index-tracking fund 12 issues tracking fund shares 14 that are traded on a marketplace 16 in a first country 18, .... The first tracking fund 12 has a different country of registration 18 than that of a second fund 22. The second fund 22 also issues tracking fund shares 24 traded on a second marketplace 26. The second marketplace 26 is based in a second country 28.”<sup>11</sup> and “the first tracking fund 12 uses a creation unit 15 basis that is substantially the same as, and preferably essentially identical to, the creation unit 25 basis for the second tracking fund 22.”<sup>12</sup> See also FIGS. 1 and 4.

The inventive features of Appellant's claim 18 also include instructions included in the computer program product to determine a number of shares in the second exchange-traded fund to account for cash that is owed by the agent to the participant the agent delivering the second number of shares in the second exchange-traded fund in lieu of the cash. “...the agent calculates

<sup>9</sup> Appellant's Specification page 13, lines 4-13.

<sup>10</sup> See FIGS. 1 and 4, and Appellant's Specification page 13, line 12 to page 14, line 12.

<sup>11</sup> Appellant's Specification page 4, lines 11-13 and lines 17-21.

<sup>12</sup> *Id.* page 5, lines 22-25.

64 the amount of cash needed to be exchanged between agent and the participant to have first fund equate to second fund at the NAV at the close of trading in the second country. If the cash is a positive amount the agent owes cash to the participant. As shown in FIG. 3, if the calculation 64 indicates that the agent that issues the shares must also issue cash to the market participant 66, the agent at its option can instead issue 68a shares in the second country fund along with the shares in the first country fund.”<sup>13</sup> See also FIGS. 3 and 4.

The inventive features of Appellant's claim 18 also include instructions included in the computer program product to record the prescribed number of shares in the first exchange-traded fund and the number of shares in the second exchange-traded fund to account for the cash. “The agent exchanges the basket of securities for a prescribed number of shares in the first fund.”<sup>14</sup> and “The agent can set a maximum cash amount that it will give to participants. Any transactions that exceed the maximum amount will result in issuance of the second country fund shares along with the prescribed amount of first country shares, e.g., 50,000 in this example. If this option is not exercised, then the agent can simple issue 68b cash to the participant along with the shares of the first country fund.”<sup>15</sup> See also FIG. 4.

### Claim 23

Appellant's claim 23 is directed to a method for administering a first exchange-traded fund, the method executed on a computer system.<sup>16</sup>

Inventive features of Appellant's claim 23 include recording by the computer system, delivery from a participant to an agent of a creation unit basket of securities for the first exchange-traded fund in exchange for a prescribed number of shares in the first exchange-traded fund, the shares for the first exchange-traded fund trading in a first country and the first exchange-traded fund having a basis that is substantially the same basis as a creation unit basis for a second exchange-traded fund traded in a second, different country. “Referring to FIG. 1, a first index-tracking fund 12 issues tracking fund shares 14 that are traded on a marketplace 16

<sup>13</sup> Appellant's Specification page 13, lines 4-13.

<sup>14</sup> Id. page 13, lines 2-4.

<sup>15</sup> Id. page 13, lines 17-23.

<sup>16</sup> See FIGS. 1 and 4, and Appellant's Specification page 14, line 12 to page 15, line 12.

*in a first country 18, .... The first tracking fund 12 has a different country of registration 18 than that of a second fund 22. The second fund 22 also issues tracking fund shares 24 traded on a second marketplace 26. The second marketplace 26 is based in a second country 28.”<sup>17</sup> and “the first tracking fund 12 uses a creation unit 15 basis that is substantially the same as, and preferably essentially identical to, the creation unit 25 basis for the second tracking fund 22.”<sup>18</sup> See also FIGS. 1 and 4.*

Inventive features of Appellant's claim 23 also include determining by the computer system a number of shares in the second exchange-traded fund to deliver to the participant to account for cash that is owed by the agent to the participant the agent delivering the second number of shares in the second exchange-traded fund in lieu of the cash. “...the agent calculates 64 the amount of cash needed to be exchanged between agent and the participant to have first fund equate to second fund at the NAV at the close of trading in the second country. If the cash is a positive amount the agent owes cash to the participant. As shown in FIG. 3, if the calculation 64 indicates that the agent that issues the shares must also issue cash to the market participant 66, the agent at its option can instead issue 68a shares in the second country fund along with the shares in the first country fund.”<sup>19</sup> See also FIGS. 3 and 4.

Inventive features of Appellant's claim 23 also include recording by the computer system the prescribed number of shares in the first exchange-traded fund and the number of shares in the second exchange-traded fund to account for the cash. “The agent exchanges the basket of securities for a prescribed number of shares in the first fund.”<sup>20</sup> and “The agent can set a maximum cash amount that it will give to participants. Any transactions that exceed the maximum amount will result in issuance of the second country fund shares along with the prescribed amount of first country shares, e.g., 50,000 in this example. If this option is not exercised, then the agent can simple issue 68b cash to the participant along with the shares of the first country fund.”<sup>21</sup> See also FIG. 4.

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<sup>17</sup> Appellant's Specification page 4, lines 11-13 and lines 17-21.

<sup>18</sup> *Id.* page 5, lines 22-25.

<sup>19</sup> *Id.* page 13, lines 4-13.

<sup>20</sup> *Id.* page 13, lines 2-4.

<sup>21</sup> *Id.* page 13, lines 17-23.

**(6) Grounds of Rejection to be Reviewed on Appeal**

(1) Claims 1 and 7 stand rejected under 35 U.S.C. §101 as directed to non-statutory subject matter.

(2) Claims 1, 2, 4-8, 10-13, 15-19 and 21-26 stand rejected under 35 U.S.C. §112, second paragraph, as being incomplete for omitting essential steps.

(3) Claims 1, 2, 4-8, 10-13, 15-19 and 21-26 stand rejected under 35 U.S.C. §103(a) as being unpatentable over Gastineau, US Pub. No. 2001/0025266 in view of "Exchange traded funds—the wave of the future ?," by Stuart M. Strauss.

**(7) Argument**

Obviousness

"It is well established that the burden is on the PTO to establish a prima facie showing of obviousness, *In re Fritsch*, 972 F.2d. 1260, 23 U.S.P.Q.2d 1780 (C.C.P.A., 1972)."

In *KSR Intl. Co. v. Teleflex Inc.*, 127 S.Ct. 1727 (2007), the Supreme Court reversed a decision by the Court of Appeal's for the Federal Circuit decision that reversed a summary judgment of obviousness on the ground that the district court had not adequately identified a motivation to combine two prior art references. The invention was a combination of a prior art repositionable gas pedal, with prior art electronic (rather than mechanical cable) gas pedal position sensing. The Court first rejected the "rigid" teaching suggestion motivation (TSM) requirement applied by the Federal Circuit, since the Court's obviousness decisions had all advocated a "flexible" and "functional" approach that cautioned against "granting a patent based on the combination of elements found in the prior art."

In *KSR* the Supreme Court even while stating that: "the Court of Appeals drew the wrong conclusion from the risk of courts and patent examiners falling prey to hindsight bias," warned that: "a factfinder should be aware, of course, of the distortion caused by hindsight bias and must be cautious of arguments reliant upon *ex post* reasoning."

The Court of Appeals, finally, drew the wrong conclusion from the risk of courts and patent examiners falling prey to hindsight bias. A factfinder should be aware, of course, of the distortion



caused by hindsight bias and must be cautious of arguments reliant upon *ex post* reasoning. See *Graham*, 383 U. S., at 36 (warning against a "temptation to read into the prior art the teachings of the invention in issue" and instructing courts to "guard against slipping into the use of hindsight" (quoting *Monroe Auto Equipment Co. v. Heckethorn Mfg. & Supply Co.*, 332 F. 2d 406, 412 (CA6 1964))). Rigid preventative rules that deny factfinders recourse to common sense, however, are neither necessary under our case law nor consistent with it.

With respect to the genesis of the TSM requirement, the Court noted that although "As is clear from cases such as *Adams*<sup>22</sup>, a patent composed of several elements is not proved obvious merely by demonstrating that each of its elements was, independently, known in the prior art. Although common sense directs one to look with care at a patent application that claims as innovation the combination of two known devices according to their established functions, it can be important to identify a reason that would have prompted a person of ordinary skill in the relevant field to combine the elements in the way the claimed new invention does. This is so because inventions in most, if not all, instances rely upon building blocks long since uncovered, and claimed discoveries almost of necessity will be combinations of what, in some sense, is already known."

"The mere fact that the prior art could be so modified would not have made the modification obvious unless the prior art suggested the desirability of the modification." *In re Gordon*, 221 U.S.P.Q. 1125, 1127 (Fed. Cir. 1984).

Although the Commissioner suggests that [the structure in the primary prior art reference] could readily be modified to form the [claimed] structure, "[t]he mere fact that the prior art could be so modified would not have made the modification obvious unless the prior art suggested the desirability of the modification." *In re Laskowski*, 10 U.S.P.Q. 2d 1397, 1398 (Fed. Cir. 1989).

"The claimed invention must be considered as a whole, and the question is whether there is something in the prior art as a whole to suggest the desirability, and thus the obviousness, of making the combination." *Lindemann Maschinenfabrik GMBH v. American Hoist & Derrick*, 221 U.S.P.Q. 481, 488 (Fed. Cir. 1984).

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<sup>22</sup> *United States v. Adams*, 383 U. S. 39, 40 (1966)

Obviousness cannot be established by combining the teachings of the prior art to produce the claimed invention, absent some teaching or suggestion supporting the combination. Under Section 103, teachings of references can be combined only if there is some suggestion or incentive to do so. *ACS Hospital Systems, Inc. v. Montefiore Hospital*, 221 U.S.P.Q. 929, 933 (Fed. Cir. 1984) (emphasis in original, footnotes omitted).

"The critical inquiry is whether 'there is something in the prior art as a whole to suggest the desirability, and thus the obviousness, of making the combination.'" *Fromson v. Advance Offset Plate, Inc.*, 225 U.S.P.Q. 26, 31 (Fed. Cir. 1985).

**(1) Claims 1 and 7 are directed to statutory  
subject matter**

Claim 1

Appellant contends that this rejection is improper. On October 30, 2008, subsequent to the mailing of the final office action from which Appellant appeals, the Federal Circuit issued a decision in *In re Bilski*. In this case, the court reiterated the Supreme Court's "machine-or-transformation" test for patentability of process claims. Under this test, a process is patentable if: "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." Claim 1 recites "recording by the computer, delivery by a market participant to an agent for the first fund, of a creation unit basket of securities..." and is thus tied to a computer system, which is a particular machine or apparatus.

*Bilski* also rejected the useful, concrete and tangible result test relied on by the examiner and outlined in *State Street Bank*. For example, *Bilski* states "[t]herefore, we also conclude that the 'useful, concrete and tangible result' inquiry is inadequate and reaffirm that the machine-or-transformation test outlined by the Supreme Court is the proper test to apply." As such, the test applied by the examiner, is no longer the correct test for determining patentable subject matter and under the correct test namely tied to a particular apparatus the claims are clearly directed to statutory subject matter.

The Result is Useful, Concrete, and Tangible

Nonetheless, the claims provide a result that is useful, concrete and tangible. The examiner stated, in part: "Re Claims 1 and 7: The claims fail to provide a "useful result" because they can be read so broadly as to include statutory and nonstatutory subject matter." Appellant disagrees. Claim 1 is directed only to statutory subject matter because the claim only encompass actions that can only be performed by a computer.

The Examiner Improperly Mixes Bases for the  
Rejection Under 101

The examiner further stated: "In both cases the claims are conclusory and merely state the goal be achieved. (See preemption discussion). The claims fail to provide a "concrete result" because they are not substantially repeatable and they cannot substantially produce the same result again." Appellant disagrees. The claims produce a concrete result, namely the recording by the computer of "delivery of a prescribed number of shares in the first fund to the market participant, in exchange for the creation unit basket of securities and a second number of shares in the second fund to account for cash that is owed by the agent to the participant."

The examiner further argues that: "In the case of claim 1, (a) The first limitation relies on actions by a person that may or may not happen (i.e., "delivering by a market participant...", (b) The second limitation (i.e., delivering a prescribed number of shares..." is dependent on an intended use/result (i.e., to account for cash that is owed by the agent to the participant) but an intended use/result is neither guaranteed or required to occur." Appellant disagrees. Nothing in either of these limitations relies on actions that may or may not happen. The first feature recites a positive step of: "recording by the computer, delivery ... of a creation unit basket of securities," whereas the second step sets forth the positive feature of: "recording by the computer, delivery of ... a second number of shares in the second fund to account for cash ... ."

The examiner further argues that: "(c) The claim is indefinite because the meaning of terms in the claim is unclear (e.g., substantially)." The examiner does not cite any authority for rejection of a claim under 35 U.S.C. 101, as indefinite. Nonetheless, the term "substantially" in claims 1, 7, 12, 16 and 19 is not a relative term that would render the claims indefinite (or non-statutory), but rather is a term that expresses a degree of tolerance and is therefore proper.

Applicant : Steven M. Bloom, Michael S. Spector and  
John L. Jacobs  
Serial No. : 10/001,900  
Filed : November 14, 2001  
Page : 12 of 32

Attorney's Docket No.: 09857-0073001

The examiner argues that: "In the case of claim 7, (a) The only limitation (i.e., determine a second number of shares...." is dependent on an intended use/result (i.e., to account for cash that is owed by the agent) but an intended use/result is neither guaranteed or required to occur. The limitation also relies on passive language that also not guaranteed or required to occur (e.g., to allow the agent to deliver a second number of shares ) (b) The claim is indefinite because the meaning of terms in the claims are unclear (e.g., substantially)." Appellant disagrees because even in the instance where there is no cash owed, the computer still records that fact, namely that zero shares of the second fund were delivered.

#### Claim 1 is a Proper Method Claim

The examiner argues that claim 1 is "(2) Not a proper method (i.e., process) claim." Claim 1 meets at least the first test as set out by the Federal Circuit in *Bilski*, i.e., both of the steps are tied to another statutory class, a manufacture, by requiring recording by a computer, a particular apparatus. It also results in a transformation e.g., by the reasoning presented in *State Street* argued of record.

Unlike the situation in *Comiskey*, also relied on by the examiner, here the claims are tied to a particular machine, which was not the case in *Comiskey*.

The examiner also argues that: "Re Claim 1: At best, the method claim provides only a nominal recitation of another statutory class. As noted supra, a method claim is defined by the steps or acts performed. If that is the case, the only steps performed by the claimed method are "recording...." and "recording " In other words, the claimed method is just storing data." Appellant disagrees. Unlike the situation of mere descriptive material, the acts of "recording" and "recording" require the use of data that transform the state of the computer by the very actions recited. The data recited in the claim are used in the context of a calculation, e.g., to ascertain the "prescribed number of shares." These calculations are discussed in the specification, but inclusion of any such exact calculations in the claims would unnecessarily narrow the scope of these claims because it would be easy for another system of another entity to perform this calculation and thus have infringers avoid direct infringement of the claims.

There is no Preemption of an Idea, Law of Nature  
or Natural Phenomena

The examiner presents a principle that proscribes "Preemption." However, the examiner has not explained how Appellant's claims preempt an idea, law of nature or natural phenomena. Clearly, the later two do not apply and the former, "idea," is inapplicable because of the presence of the computer performing the recited actions.

Essential Steps are not Missing

The examiner also presents an argument of missing essential steps. The examiner argues: "For example, before any delivery can occur one must identify how they are getting a prescribed number of shares, a creation unit etc. Also, essential steps are missing. For example, the steps in the dependent claims such as calculating the amount of cash needed to be exchanged relies on the step of calculating the net asset value of the first fund at the close of trading in the second country in which the second fund is trading having already occurred in the independent claim." Again, the examiner requires features that only serve to narrow the scope of the claims without the examiner having produced any prior art that would require Appellant to narrow the scope of these claims. For instance, calculating the net asset value, is clearly a conventional step, that might be performed on a different system by a different entity, and thus allow the infringer to easily avoid any direct infringement of the claim.

Claim 7

With respect to claim 7, the claimed invention recites instructions to "determine a second number of shares in the second fund...." This limitation is not "the goal to be achieved" as the examiner argues, but rather instructions executed by a computer as recited in claim 7.

**(2) Claims 1, 7, 12, 18, and 23 particularly point  
out the subject matter that Appellants regard  
as their invention**

The examiner rejected Claims 1, 7, 12, 18 and 23 under 35 U.S.C. §112, second paragraph, as being incomplete for omitting essential steps, such omission amounting to a gap between the steps.

Appellant notes that it is well settled that it is not necessary for the claims to recite every element needed for practical utilization of the claimed subject matter in order for a claim to be proper under 35 U.S.C. § 112, second paragraph, *Bendix Corp. v. United States*, 600 F.2d 1364, 1369, 204 U.S.P.Q. 617, 621 (Court of Claims, 1979). It is not the role of the claims to enable one skilled in the art to reproduce the invention, but rather to define the legal metes and bounds of the invention. *In re Geoffe*, 526 F.2d 1393, 1397, 188 U.S.P.Q. 131, (CCPA, 1975). The claims need not provide all operating details but a method claim should recite a positive step. *In re Erlich*, 3 U.S.P.Q. 2d 1011 (Bd. Pat. App. & Int., 1986).

#### The Claims are Complete and Not Conclusory

Appellants have set forth the subject matter of their invention, as required by 35 U.S.C. § 112, second paragraph. Appellants note that the examiner has not found any prior art that would necessitate a narrowing of the scope of claim 1, as will be set forth *infra*.

One skilled in this art would be capable of appreciating the metes and bounds of this claim and to understand what Appellants consider to be their invention, which is what is required by 35 U.S.C. § 112, second paragraph.

The examiner argues that claims 1, 7, 12, 18 and 23 are "conclusory without identifying the process necessary to arrive at that conclusion." The claims do not recite "conclusions," but recite a novel combination of features used in producing the shares in the novel product. All of the questions raised by the examiner, e.g., prescribed number of shares, are addressed in Appellant's specification but are not specifically needed to distinguish over the prior art nor needed to understand the metes and bounds of the subject matter of the invention claimed. It is improper of the examiner to require these unnecessary limitations, thus forcing Appellant to narrow the scope of the claims without any basis in the prior art for so doing.

The examiner argues: "Regarding claims 1, 7, 12, 18 and 23 the claims make reference to intended use/intended results without giving any life or meaning to these statements in the claims. Also, the claims recites language that is passive in the claim because it could be done but, does not have to be done ... ." Terms that the examiner has problems with, for instance, "to account for a cash amount owed " are clearly described in the specification and a calculation of that feature is not needed to distinguish these claims over

the prior art. Moreover, these terms are not "intended use language" because they are part of a calculation needed to have the shares/creations units equate.

The examiner also argues that: "In claims 1, 7, 12, 18 and 23, the dependent claims rely on certain steps and or elements that fail to occur in the independent claims (e.g., net asset value/value." Appellant contends that it is not necessary for these claims to recite these "steps/elements," in order for the metes and bounds of the claims to be understood by one skilled in this art. These features are not needed to distinguish the claims over the cited art and Appellant submits that the examiner merely seeks to force Appellant to narrow these claims without the examiner producing any prior art that would require such narrowing. Moreover, these steps/elements need not be performed by or possessed by the method/machine/computer program product that performs the underlying features of the independent claims.

#### The Preamble of Claim 1 is Proper

The examiner also argues that: "In claim 1, the preamble is drawn to a method of producing a financial product but the claimed invention fails to accomplish that result. How is the financial product produced?" Appellants respond that claim 1 is drawn a method of producing shares, claims 7 and 18 computer programs for administrating a first financial product, claim 12 a system, and claim 23 a method for administrating. The preambles of the respective claims are consonant with the features recited in those claims.

#### The Term "substantially" is Not Indefinite

The term "substantially" in claims 1, 7, 12, 16 and 19 is not a relative term that would render the claims indefinite, but rather is a term that expresses a degree of tolerance specifically directed to the creation unit basis of the first and the second fund, permitting these funds to vary slightly in composition as is common in the securities industry for conventional index funds, and is therefore proper. The term substantially is measured by the degree of arbitration that is desired by the market. That is, Appellant describes that ideally, the creation unit basis of each fund should be the same. "Substantially" allows for some flexibility in that basis as would be

appreciated by one skilled in the art. For instance, many financial prospectuses often make allowance for minor variations in composition of index funds from the underlying index.

"Cash", "cash amount", "value", and Other Terms  
Would Be Understood By One Skilled In The Art

The examiner argues that: "Claims 2, 4-6, 8, 10-11, 13, 15-17, 19, 21-22 and 24-26 recite the limitation "cash", "cash amount" etc. Is this the cash amount owed? The cash amount needed? Or is it some other cash amount?" Claim 2, for instance, introduces calculating the amount of cash needed to be exchanged. That calculation indicates cash is owned by the participant to the agent or by the agent to the participant, as expressed in the second to last line of claim 2.

Regarding Claims 4, 10, 15 and 25, the features of "value," could be a value or net asset value, as appropriate.

The examiner argues that: "Claim 12 recites the limitation "record the number of shares issued in the first financial product". This is indefinite because no shares were issued as a part of the claimed invention, it is thus unclear what shares are recorded. Appellants disagree. The feature of instructions to record the number of shares is sufficient to account for issuance of the shares.

Antecedent Bases are Sufficient

The examiner also argues that: Claims 2, 8 and 13 recite the limitations "the net asset value of the second fund" and "the second country". There is insufficient antecedent basis for these limitations in the claims. Appellants contend that there is sufficient antecedent basis in claim 1, which recites second, different country for "second country" as recited in claim 2.

**(3) Claims 1, 2, 4-8, 10-13, 15-19, and 21-26 are  
patentable over Gastineau and Strauss**

Claims 1, 4, 5, 7, 10, 12, 15 and 17

For the purpose of this appeal only, claims 1, 4, 5, 7, 10, 12, 15 and 17 stand or fall together. Appellant's claim 1 is representative of this group of claims.



The examiner argues that:

Re Claim 1: Gastineau discloses a method of producing shares of a first fund, which are that is traded on a first marketplace, the method executed on a computer, the method comprising:

recording by the computer, delivery by a market participant to an agent for the first fund, of a creation unit basket of securities having a creation unit basis that is substantially the same basis as a creation unit basis for a second fund that is traded on a second marketplace in a second, different country than that of the first fund (Gastineau, [0001] [0002] [0003] [0004]);

Gastineau fails to explicitly disclose:

recording by the computer, delivery of a prescribed number of shares in the first fund to the market participant, in exchange for the creation unit basket of securities and a second number of shares in the second fund to account for cash that is owed by the agent to the participant.

Strauss discloses:

recording by the computer, delivery of a prescribed number of shares in the first fund to the market participant, in exchange for the creation unit basket of securities and a second number of shares in the second fund to account for cash that is owed by the agent to the participant.(Strauss, pgs. 1-3).

It would have been obvious to one of ordinary skill in the art at the time the invention was made to modify the teachings of Gastineau by adopting the teachings of Strauss to provide a method further comprising recording by the computer, delivery of a prescribed number of shares in the first fund to the market participant, in exchange for the creation unit basket of securities and a second number of shares in the second fund to account for cash that is owed by the agent to the participant.

As suggested by Strauss one would have been motivated to ensure that shares are purchased at NAV.

Claim 1 calls for "...recording by the computer, delivery ... of a creation unit basket of securities having a creation unit basis that is substantially the same as a creation unit basis for a second fund that is traded on a second marketplace in a second, different country than that of the first fund; and recording by the computer, delivery of a prescribed number of shares in the first fund to the market participant, in exchange for the creation unit basket of securities and a second number of shares in the second fund to account for cash that is owed by the agent to the participant." Gastineau neither described nor would have made obvious these features.

Gastineau describes conventional creation unit basis for production of exchange traded funds. Take for instance, the S&P 500 depository receipts (SPDR's). These are instruments that are traded in the US based on a trust that is in the US and uses an index, the S&P 500. Gastineau does not suggest both a first fund with a creation unit basket of securities that is substantially the same basis as a creation unit basis for a second fund traded on a second marketplace in a second, different country."

That is, in the context of claim 1, Gastineau does not have any suggestion of, e.g., a trust or a fund, in, e.g., Europe that is based on the S&P 500 (SPDR's) traded in the US, which would be an example of the "first fund." Gastineau merely provides teachings for the "second fund" in the context of claim 1.

The examiner has failed to explicitly point out where Gastineau discloses both the first fund and the second fund, as claimed in claim 1, despite repeated requests by Appellant.

The examiner acknowledges that: Gastineau fails to explicitly disclose: delivering a prescribed number of shares in the first fund to the market participant, in exchange for the creation unit basket of securities and a second, number of shares in the second fund to account for cash that is owed by the agent to the participant. Appellants agree that Gastineau neither describes nor suggests this claimed feature.

The examiner uses Strauss to teach the later feature of claim 1. Strauss describes for instance "Redemption proceeds include the Fund Securities plus cash in an amount equal to the difference between the NAV of the Shares being redeemed and the value of the Fund securities. 10 If the value, however, of the Fund Securities is greater than the NAV of the Shares, a cash payment equal to the differential must be paid to the ETF." Strauss does not cure any of the deficiencies in Gastineau regarding teaching of the first fund and the second fund, traded in a second, different country from that of the first fund.

Moreover, Strauss would not have made obvious the latter feature of claim 1, which the examiner relies on Strauss to teach. Strauss would not have made obvious "recording ... delivery of ... shares in the first fund to the market participant ... and a second number of shares in the second fund to account for cash ... ." Strauss merely describes the conventional delivery of cash, not shares in the second fund to account for the cash, as required by claim 1.

Indeed, no combination of Gastineau and Strauss describes or would have made obvious both the first fund and the second fund, in the claimed relationship. Therefore, the combination of references inherently could not suggest the feature of recording delivery of the shares in the first fund and delivery of the shares in the second to account for cash because 1) only one of those funds are taught by the combined teachings of Gastineau and Strauss and 2) the secondary reference only teaches the conventional delivery of cash.

Accordingly, Gastineau and Strauss taken together neither described nor would have made obvious claim 1.

Claims 2, 8 and 13

For the purpose of this appeal only, claims 2, 8 and 13 stand or fall together. Appellant's claim 2 is representative of this group of claims.

Claim 2 limits claim 1 requiring the features of calculating by the computer system an amount of cash needed to be exchanged between agent and the participant to have the first fund equate to the second fund at the net asset value of the second fund at the close of trading of the second fund ... if the cash ... is owed by the agent to the participant that cash is settled in the second number of shares in the second fund.

No combination of Gastineau and Strauss suggests the logical operations of determining that the cash is owned to the participant to settle in shares of the second fund. Further, no combination of Gastineau and Strauss suggest "to have the first fund equate to the second fund at the net asset value of the second fund at the close of trading of the second fund."

In the final action in response to Appellant's argument, the examiner furnished the following supplemental statements (provided in Bold. See Final Office action for complete text of the examiner's remarks).

**The claimed invention would have been obvious to one of ordinary skill in the art. The concept of exchange-traded funds was old and well-known at the time the invention was made. See citation supra for Gastineau. In exchange for a given creation unit for a fund, a number of shares plus/minus a cash component could be exchanged, such that the values exchanged are equal. Furthermore, it was old and well-known that this purchase and redemption occurred at net asset value. See citation supra for Strauss."**

Appellants contend that while Gastineau teaches the SPDR ETF and a hedging vehicle for trading actively managed ETF's, Gastineau does not teach that there is any relationship between any of the mentioned ETF's or the actively managed ETF or the hedging vehicle. That is, nothing in Gastineau, as modified by Strauss, would make obvious the features of first and second funds traded in different countries, having the same (or substantially the same) creation unit basis, (claim 1) and with the net asset values calculated at the close of trading in the second fund, (claim 2) with the shares in the first and second fund being arbitragable. Indeed, the hedging portfolio of Gastineau does not have the same basis as the portfolio that it seeks to

hedge against. Rather, the point of Gastineau is to develop a hedging basket of securities for an actively managed fund, whose composition is unknown.

Claims 6, 11, 16

For the purpose of this appeal only, claims 6, 10 and 11 stand or fall together.

Appellant's claim 6 is representative of this group of claims.

Claim 6 further limits the method of claim 5, which sets a maximum cash amount, and requires that if that amount is exceeded, results in issuance of the second fund shares along with the prescribed number of first fund shares. No combination of Gastineau and Strauss suggests the logical operations of setting this threshold and if it is exceeded settling in shares of the second fund.

Claims 18, 21 and 21, 23 and 256

For the purpose of this appeal only, claims 18, 21, 23 and 25 stand or fall together.

Appellant's claim 18 is representative of this group of claims.

Claim 18 is patentable over Gastineau and Straus because no combination of these references either described or would have made obvious ... instructions ... to record creation of the first exchange-traded fund, ... having a prescribed number of shares for trading in a first country, ... produced by delivery to ... of a creation unit basket of securities having a basis that is substantially the same basis as a creation unit basis for a second exchange-traded fund that has shares traded on a second marketplace in a second, different country.

As with claim 1 above, Gastineau neither described nor would have made obvious first exchange-traded fund ... produced by delivery ... of a creation unit basket of securities having a basis that is substantially the same basis as a creation unit basis for a second exchange-traded fund ... traded on a second marketplace in a second, different country.

In addition, no combination of these references would have made obvious instructions to "determine a number of shares in the second exchange-traded fund to account for cash that is owed by the agent to the participant ... and record the prescribed number of shares ... to account for cash.

Claims 19, 22, 24 and 26

Claims 19, 22, 24 and 26 are patentable over the combination of Gastineau and Strauss for the reasons given in claim 18 and analogous reasons given above for claims 2 and 6, respectively.

The Examiner Advanced Additional Reasoning  
That was Not Explicitly Tied to Particular Claims  
and Therefore is Treated Separately Herein.

The examiner also argues that: "It is noted that this is also obvious in light of the teachings of Gastineau and Strauss. This is also a type of in-kind exchange that is common in fields related to bartering, trading and exchanges. The idea that something (i.e., usually other than money) that is an equivalent or near equivalent (i.e., in value, use etc.) can be given as an alternative or replacement for something else." Appellants respond that when the invention is taken as a whole and this specific feature is considered, namely "delivery of a prescribed number of shares in the first fund to the market participant, in exchange for the creation unit basket of securities and a second number of shares in the second fund to account for cash that is owed by the agent to the participant," it is not apparent that known techniques of, e.g., barter, can be applied to the feature and combined with references that do not suggest any of the features of the claim to suggest the claim as a whole.

Appellants' further contend that the examiner's statements regarding "in-kind exchange" if meant to mean fungible and/or arbitrageable, may well be known for, e.g., ETF's traded on e.g., the American Stock Exchange, that is, one share of a SPDR 500 as taught by Gastineau can be arbitrated against and is fungible with another SPDR 500 taught by Gastineau. That would not apply however if one of the shares were traded in, e.g., Europe, absent the novel features taught by Appellants.

The examiner argues that: "The concept of in-kind purchase and redemption with respect to exchange-traded funds was old and well-known at the time the invention was made." Appellants do not understand what this statement has to do with the claimed subject matter. The examiner argues that: "In exchange for a given creation unit for a fund, a number of shares plus/minus a cash component could be exchanged, such that the values exchanged are equal. Furthermore, it was old and well-known that this purchase and redemption occurred at net asset value. See citation *supra* for Strauss." Appellants again point out that this statement is not relevant to the claimed subject matter.

The examiner argues that: This<sup>23</sup> is also a type of in-kind exchange that old and well-known in fields related to bartering, trading and exchanges. Appellants have consistently disagreed with this reasoning and have consistently asked the examiner furnish documentary evidence that in the context of exchange traded funds that the feature "... a number of shares in the second fund to account for a cash amount owed ..." is old and well known, because this is neither apparent from any of the cited art nor from the examiner's reasoning. The examiner has consistently failed to furnish such documentary evidence.

The examiner also argues that:

Re claims 1-2, 4-8, 10-13, 15-19 and 21-26: Known work in one field of endeavor may prompt variations of it for use in either the same field or a different one based on design incentives or other market forces if the variations are predictable to one of ordinary skill in the art. Thus, the claimed subject matter likely would have been obvious under KSR. KSR, 127 S.Ct. at 1741, 82 USPQ2d at 1396.

Appellant has addressed this argument above. The examiner has yet to find "known work in any field that suggests the features of these claims.

#### Automation

The examiner also advanced the following:

"It is not 'invention' to broadly provide a mechanical or automatic means to replace manual activity which has accomplished the same result. *In re Venner*, 120 USPQ 192 (CCPA 1958) *In re Rundell*, 9 USPQ 220." Appellants do not disagree with this statement, but stress that the features of the independent claims are not "manual activity which has accomplished the same result." Rather, the features are novel and non-obvious for the reasons discussed above. Moreover, the examiner has not shown that the "manual activity" was known in the art before the claimed invention.

#### Intended use

See discussion above and of record.

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<sup>23</sup> Applicants assume that "this" refers to (creation unit basis between the first fund and the second fund are the same (or nearly the same) and when the net asset value is taken at the same time, that shares in the second fund could also be used).

### Hindsight

Appellant requests that the examiner specifically point out where in the prior art the examiner finds the “knowledge” of: “a first fund ... trading in a first country... having a creation unit basis that is substantially the same as a creation unit basis for a second fund that is traded on a second marketplace in a second, different country and ... delivery ... of shares in the second fund to account for a cash amount owed ... .”

Appellants submit that it is only after gleaning knowledge from Appellants’ claims and teachings that the examiner constructs such an argument. Appellants are aware that any rejection is in some fashion an application of hindsight, but Appellants contend the examiner has used improper hindsight because the examiner has not found any teachings in the references that either describe or suggest any of the claimed features, and instead has resorted to misinterpretations of prior art teachings and misleading arguments and unsupported conclusions that are not based on the teachings of the references, but the examiner’s apparent desire to prolong prosecution and improper reluctance allow this application.

Therefore, the examiner has not taken into account only knowledge which was within the level of ordinary skill at the time the claimed invention was made, but instead used knowledge gleaned only from the Appellant’s disclosure and/or claims, in contravention of *In re McLaughlin*, 443 F.2d 1392, 170 USPQ 209 (CCPA 1971) and *KSR*, *supra*.

### Documentary Evidence

The examiner disagrees with Appellant’s assertion that a rejection was made on the basis of Official Notice, and points to support in *Strauss supra*, as first noted in the office action 07/24/07, and the references made of record. Appellants contend that these references do not provide the requested documentary support. Appellants’ repeated requests for such documentary evidence, which the examiner has not satisfied, leads to the conclusion that the support does not exist.

Applicant : Steven M. Bloom, Michael S. Spector and  
John L. Jacobs  
Serial No. : 10/001,900  
Filed : November 14, 2001  
Page : 24 of 32

Attorney's Docket No.: 09857-0073001

### **Conclusion**

Appellant submits that claims 1-2, 4-8, 10-13, 15-19, and 21-26 are directed to statutory subject matter within the meaning of 35 U.S.C. §101, are proper under 35 U.S.C. §112, second paragraph and are patentable over the art of record. Therefore, the Examiner erred in rejecting Appellant's claims and should be reversed.

Respectfully submitted,

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/Denis G. Maloney/  
Denis G. Maloney  
Reg. No. 29,670

Fish & Richardson P.C.  
225 Franklin Street  
Boston, MA 02110  
Telephone: (617) 542-5070  
Facsimile: (877) 769-7945

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### **Appendix of Claims**

1. A method of producing shares of a first fund, which are traded on a first marketplace, the method executed on a computer, the method comprising:

recording by the computer, delivery by a market participant to an agent for the first fund, of a creation unit basket of securities having a creation unit basis that is substantially the same as a creation unit basis for a second fund that is traded on a second marketplace in a second, different country than that of the first fund; and

recording by the computer, delivery of a prescribed number of shares in the first fund to the market participant, in exchange for the creation unit basket of securities and a second number of shares in the second fund to account for cash that is owed by the agent to the participant.

2. The method of claim 1 further comprising:

calculating by the computer system an amount of cash needed to be exchanged between agent and the participant to have the first fund equate to the second fund at the net asset value of the second fund at the close of trading of the second fund in the second country;

wherein if the cash needed to be exchanged is owed by the agent to the participant that cash is settled in the second number of shares in the second fund.

Claim 3 is canceled.

4. The method of claim 2 wherein the amount of cash equates the value of the first fund shares to the value of the second fund shares.

5. The method of claim 2 wherein the agent sets a maximum cash amount that it will give to participants.

6. The method of claim 5 wherein when the maximum cash amount is exceeded, the exceeding of the maximum cash amount will result in issuance of the second fund shares along with the prescribed number of first fund shares.

7. A computer program product residing on a computer readable medium, for administrating a first financial product that has shares traded in a first marketplace the first financial product based on a creation unit basket of securities having a basis that is substantially the same basis as a creation unit basis for a second financial product that has shares traded on a second marketplace in a different country, the computer program product comprising instructions for causing a processor to:

determine a second number of shares in the second financial product to account for cash that is owed by an agent that issues the shares in the first financial product to a participant that receives the shares in the first financial product, the agent delivering a second number of shares in the second financial product in lieu of the cash.

8. The computer program product of claim 7 further comprising instructions to:

calculate the amount of cash needed to be exchanged between agent and the participant to have the first financial product shares equate to the second fund shares at the net asset value of the second financial product shares at the close of trading of the second fund shares in the second country;

wherein if the cash needed to be exchanged is owed by the agent to the participant that cash is settled in the second number of shares in the second fund.

Claim 9 is canceled.

10. The computer program product of claim 8 wherein the amount of cash exchanged from the agent to the market participant or from market participant to the agent equates the value of the first financial product shares to the value of the second financial product shares.

11. The computer program product of claim 8 wherein when the program calculates that a maximum cash amount is exceeded, the exceeding of the maximum amount will result in

issuance of the second financial product shares along with the number of first financial product shares.

12. A system, comprises:

a computer; and

a storage medium storing a computer program product for administering a first financial product that has shares traded in a first marketplace, the first financial product based on a creation unit basket of securities having a basis that is substantially the same basis as the creation unit basis for a second financial product that has shares traded on a second marketplace in a different country, the computer program product comprising instructions for causing a processor to:

record the number of shares issued in the first financial product; and

determine a second number of shares in the second financial product to account for cash that is owed by an agent that issues the shares in the first financial product to a participant that receives the shares, the agent delivering the second, number of shares in the second financial product in lieu of the cash; and

record the second number of shares delivered in the second financial product.

13. The system of claim 12 wherein the computer program product further comprising instructions to:

calculate the amount of cash to exchange between the agent and the participant to have first financial product shares equate to the second financial product shares at the net asset value at the close of trading in second country to determine the cash amount owed;

wherein if the cash needed to be exchanged is owed by the agent to the participant that cash is settled in the second number of shares in the second fund.

Claim 14 is canceled.

15. The system of claim 12 wherein the computer program product determines the amount of cash exchanged to equates values of the first financial product shares to values of the second financial product shares.

16. The system of claim 12 wherein the computer program product calculates whether transactions exceed a maximum amount will result in issuance of the second financial product shares along with the number of first financial product shares.

17. The computer program product of claim 7 further comprising instructions to:  
determine a prescribed number of shares in the first financial product provided to the participant in exchange for the creation unit basket.

18. A computer program product residing on a computer readable medium, for administrating a first exchange-traded fund, the computer program product comprising instructions for causing a processor to:

record creation of the first exchange-traded fund, the first exchange-traded fund having a prescribed number of shares for trading in a first country, the first exchange-traded fund produced by delivery to an agent, in exchange for the prescribed number of shares of a creation unit basket of securities having a basis that is substantially the same basis as a creation unit basis for a second exchange-traded fund that has shares traded on a second marketplace in a second, different country;

determine a number of shares in the second exchange-traded fund to account for cash that is owed by the agent to the participant the agent delivering the second number of shares in the second exchange-traded fund in lieu of the cash; and

record the prescribed number of shares in the first exchange-traded fund and the number of shares in the second exchange-traded fund to account for the cash.

19. The computer program product of claim 18 further comprising instructions to:

calculate the amount of cash needed to be exchanged between the agent and the participant to have first exchange-traded fund equate to second exchange-traded fund at the net asset value at the close of trading of the second exchange-traded fund in the second country;

wherein if the cash needed to be exchanged is owed by the agent to the participant that cash is settled in the second number of shares in the second fund.

Claim 20 is canceled.

21. The computer program product of claim 19 wherein the amount of cash exchanged from the agent to the market participant or from market participant to the agent equates the value of the first exchange-traded fund to the value of the second exchange-traded fund.

22. The computer program product of claim 19 further comprising instructions to:  
calculate whether the cash involved exceeds a maximum amount, and result in issuance of the second exchange-traded fund shares along with the prescribed number of first exchange-traded fund shares.

23. A method for administering a first exchange-traded fund, the method executed on a computer system, the method comprising:

recording by the computer system, delivery from a participant to an agent of a creation unit basket of securities for the first exchange-traded fund in exchange for a prescribed number of shares in the first exchange-traded fund, the shares for the first exchange-traded fund trading in a first country and the first exchange-traded fund having a basis that is substantially the same basis as a creation unit basis for a second exchange-traded fund traded in a second, different country;

determining by the computer system a number of shares in the second exchange-traded fund to deliver to the participant to account for cash that is owed by the agent to the participant the agent delivering the second number of shares in the second exchange-traded fund in lieu of the cash; and

recording by the computer system the prescribed number of shares in the first exchange-traded fund and the number of shares in the second exchange-traded fund to account for the cash.

24. The method of claim 23 further comprising:

calculating the amount of cash needed to be exchanged between the agent and the participant to have shares in the first exchange-traded fund equate to shares in the second exchange-traded fund at the net asset value at the close of trading of the second exchange-traded fund in the second country;

wherein if the cash needed to be exchanged is owed by the agent to the participant that cash is settled in the second number of shares in the second fund.

25. The method of claim 23 wherein the amount of cash exchanged from the agent to the market participant or from market participant to the agent-equates the value of the first exchange-traded fund to the value of the second exchange-traded fund.

26. The method of claim 23 further comprising:

calculating whether the cash exceeds a maximum amount to result in issuance of the second exchange-traded fund shares along with the prescribed number of first exchange-traded fund shares.

Applicant : Steven M. Bloom, Michael S. Spector and  
John L. Jacobs  
Serial No. : 10/001,900  
Filed : November 14, 2001  
Page : 31 of 32

Attorney's Docket No.: 09857-0073001

### **Evidence Appendix**

None.

Applicant : Steven M. Bloom, Michael S. Spector and  
John L. Jacobs  
Serial No. : 10/001,900  
Filed : November 14, 2001  
Page : 32 of 32

Attorney's Docket No.: 09857-0073001

### **Related Proceedings Appendix**

None.